

## Message Text

PAGE 01 STATE 239372  
ORIGIN STR-05

INFO OCT-01 EA-10 IO-13 ISO-00 TRSE-00 COME-00 AGRE-00  
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DRAFTED BY STR:MPOMERANZ:TI  
APPROVED BY STR:MPOMERANZ  
TPSC:WKELLY  
TREAS:WBARREDA  
COMMERCE:BMILLER  
CULTURE:JBENSON  
STATE:TO'HERRON  
STR:MSMITH  
LABOR:IKRAMER (INFO)  
STR:TSTEWART

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P R 050047Z OCT 77  
FM SECSTATE WASHDC  
TO USMISSION GENEVA PRIORITY  
INFO AMEMBASSY TOKYO

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E.O. 11652:

TAGS: ETRD, GATT

SUBJECT: GATT PANEL ON THROWN SILK

REFERENCE: GENEVA 8056

1. PLEASE COMMUNICATE TO THE GATT SECRETARIAT THE FOLLOW-  
ING USG RESPONSES TO THE QUESTIONS POSED BY THE GATT PANEL  
(SEE REFTEL):

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PAGE 02 STATE 239372

2. (1) DURING THE FIRST QUARTER OF 1977, THE U.S.-JAPAN  
BILATERAL DISCUSSIONS, WHICH HAD BEGUN IN 1976, WERE QUITE  
NUMEROUS. DURING THIS PERIOD (APPROXIMATELY FEB. 1977) THE  
JAPANESE GOVERNMENT REPRESENTATIVE (MR. TAKAHASHI - JAPANESE  
TEXTILE NEGOTIATOR) INFORMED HIS U.S. COUNTERPART (MR. SMITH  
- U.S. TEXTILE NEGOTIATOR) THAT THERE WOULD BE NO IMPORT  
ALLOCATION FOR THE UNITED STATES IN THE SECOND QUARTER OF  
1977 OR FOR ANY LATER TIME. THIS DECLARED INTENTION HAS  
SINCE BEEN CONFIRMED BY THE FACT, TO OUR KNOWLEDGE, NO  
LICENSES WERE ISSUED IN THE SECOND QUARTER OR AT ANY TIME

THEREAFTER (EXCEPT FOR A RECENT ALLOCATION OF 12 BALES TO AN IMPORTER WHO HAD REQUESTED 500 BALES).

(2) IN 1947, 43 THROWN SILK YARN MILLS WERE IN EXISTENCE IN THE UNITED STATES, EMPLOYING 1,801 PEOPLE, AND

PRODUCING ABOUT \$12.5 MILLION WORTH (EQUIVALENT TO ABOUT 2 MILLION POUNDS) OF THROWN SILK YARN. DURING THE SAME YEAR A LITTLE OVER \$1 MILLION OF THROWN SILK YARN WAS EXPORTED BY THE UNITED STATES, AND ABOUT \$1.7 MILLION IMPORTED. THE NUMBER OF FIRMS AND EMPLOYMENT INCREASED SOMEWHAT FROM 1947 UNTIL ABOUT 1962 AT WHICH TIME SOME 48 MILLS WERE IN OPERATION EMPLOYING OVER 2,000 WORKERS, PRODUCING MORE THAN \$28 MILLION OF THROWN SILK, VERY LITTLE OF WHICH APPEARS TO HAVE BEEN EXPORTED. AFTER THE RELATIVELY STABLE PERIOD OF FROM 1947 TO 1962, THE FORTUNES OF THE INDUSTRY RESUMED A SECULAR DECLINE, ACTUALLY DATING FROM PRE-WORLD WAR II DAYS, RESULTING FROM THE GENERAL TREND TOWARD SUBSTITUTION OF MAN-MADES FOR SILK MATERIALS. THE IMPETUS FOR THIS RESUMED DECLINE MAY HAVE BEEN THE SUBSTANTIAL RISE IN THE PRICE OF RAW SILK FROM \$3.61 PER POUND FOR BASIC AA 20-22 DENIER RAW SILK IN JANUARY 1959 TO MORE THAN \$8.00 PER POUND IN MARCH LIMITED OFFICIAL USE LIMITED OFFICIAL USE

PAGE 03 STATE 239372

1963. THE UNITED STATES FINALLY LOST ITS POSITION AS THE WORLD'S LEADING IMPORTER OF RAW SILK IN ABOUT 1965 AFTER DECADES AS THE LEADER IN SUCH IMPORTS. THE POSITION OF THE U.S. SILK INDUSTRY IN PRODUCTION AND TRADE IN SILK PRODUCTS IS INDICATED TO AN EXTENT BY THE FACT THAT ALMOST ALL RAW SILK IMPORTED DURING THE POST-WAR PERIOD WAS SUBSEQUENTLY PROCESSED BY THE INDUSTRY.

FOLLOWING THE EARLY 1960'S THE FORTUNES OF THE U.S. SILK THROWING INDUSTRY UNDERWENT A RAPID DETERIORATION WITH THE NUMBER OF OPERATING MILLS DECREASING TO 11 BY 1969, TO 9 BY 1974, AND TO ONLY A HANDFUL BY THE PRESENT DATE. EMPLOYMENT IN THE INDUSTRY UNDERWENT A CORRESPONDING DECLINE FROM ABOUT 3,000 EMPLOYEES IN 1950 TO ABOUT 600-800 CURRENTLY. PRODUCTION OF THROWN SILK LIKEWISE FELL OFF AFTER THE EARLY 1960'S AFTER A NUMBER OF RELATIVELY STEADY POST-WAR PRODUCTION YEARS, DECREASING FROM A HIGH OF AROUND 5 MILLION POUNDS IN 1960 TO A LOW OF LESS THAN 1 MILLION POUNDS IN 1969. EXPORTS OF THROWN SILK YARN REMAINED NEGLIGIBLE WITH RESPECT TO DOMESTIC PRODUCTION DURING MOST OF THE POST-WAR YEARS UNTIL THE 1970'S AT WHICH TIME THEY BECAME A SIGNIFICANT COMPONENT OF THE REMAINING DOMESTIC PRODUCTION. IMPORTS, ON THE OTHER HAND, FELL TO VIRTUALLY NIL BY THE 1970'S, ALTHOUGH NEVER A MAJOR FACTOR.

THE U.S. SILK BROADWOVEN FABRIC INDUSTRY UNDERWENT A SIMILAR TREND IN THE PERIOD 1947-1976. THE FIRST HALF OF

THE PERIOD, HOWEVER, SEEMS TO SHOW AN UPSWING UNTIL 1955 AND A DOWNSWING FOLLOWING THAT DATE, ALTHOUGH PRODUCTION REMAINED HIGHER THAN LEVELS IN THE LATE 1940'S UNTIL AL - MOST 1970. POUNDS OF FABRICS PRODUCED WERE 2.34 MILLION IN 1947, 6.6 IN 1950, 9.61 IN 1955, 5.36 IN 1962 AND 2.74 IN 1969. THE NUMBER OF MILLS INVOLVED IN WEAVING

BROADSILKS FLUCTUATED FROM 50 MILLS IN 1950 TO 70 IN 1954 TO 60 IN 1958, ABOUT 30 IN 1968, AND NO MORE THAN 11 IN LIMITED OFFICIAL USE  
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PAGE 04 STATE 239372

1976. EMPLOYMENT DROPPED CORRESPONDINGLY FROM APPROXIMATELY 6,000 IN 1954 TO APPROXIMATELY 3,600 IN 1958.

DATA ON IMPORTS OF RAW SILK AND PRODUCTION OF THROWN SILK AND SILK BROADWOVEN FABRICS SHOW AN UPSWING IN THE FORTUNES OF THE U.S. INDUSTRY FROM THE EARLY POST-WAR YEARS (1947-1949) AND CONTINUING INTO THE 1950'S. THE HIGHPOINT OF THE POST-WAR INDUSTRY OCCURRED IN 1955-56, DROPPED IN 1957, BUT REMAINED AT A RELATIVELY HIGH PLATEAU UNTIL 1962. THE U.S. MAINTAINED ITS POSITION OF LEADING WORLD IMPORTER OF RAW SILK THROUGHOUT THIS PERIOD. FOLLOWING THAT YEAR THE INDUSTRY RESUMED A LONG-RUN SECULAR DECLINE DATING FROM BEFORE THE WAR RESULTING FROM SUBSTITUTION OF MAN-MADE MATERIALS AND INCREASES IN THE PRICE OF SILK. (FOR EXAMPLE, CONSUMPTION OF THROWN SILK DECLINED FROM 43 MILLION POUNDS IN 1939 TO AN ESTIMATED 6 MILLION POUNDS IN 1956 AND 4.6 MILLION POUNDS IN 1962.) BY 1970 THE DECLINE APPEARS TO HAVE BECOME DECISIVE FOR THE INDUSTRY.

AN ESCAPE CLAUSE INVESTIGATION (NO. 78) UNDER SECTION 7 OF THE TRADE AGREEMENTS EXTENSION ACT OF 1951 WAS INSTITUTED BY THE TARIFF COMMISSION ON WOVEN FABRICS WHOLLY OR IN CHIEF VALUE OF SILK ON MARCH 6, 1959, UPON APPLICATION OF THE AMERICAN SILK COUNCIL, INC. AND OTHERS. THE INVESTIGATION WAS DISMISSED ON JUNE 26, 1959, WITHOUT FORMAL FINDING BECAUSE OF THE INABILITY OF MOST OF THE PRODUCERS TO SUPPLY USABLE PROFIT-AND-LOSS DATA ON THE FABRICS UNDER INVESTIGATION. THE WEAVING OF BROADSILKS FORMERLY SEPARATE AND DISTINCT, HAD BECOME AN INTEGRAL SMALL PART OF A DIVERSIFIED TEXTILE INDUSTRY.

(3) THE OPERATIONS OF A SILK THROWING MILL USUALLY INCLUDE: RECEIVING THE RAW SILK; OPENING THE BALES; UNLIMITED OFFICIAL USE  
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PAGE 05 STATE 239372

TWISTING THE SKEINS; SOAKING THE SILK; HANGING THE SILK FOR DRYING; WINDING FROM SKEINS TO BOBBINS; DOUBLING AND TWIST-

ING THE SILK; SETTING THE TWIST BY STEAMING; REELING FROM BOBBINS TO SKEINS; LACING OF SKEINS; DRESSING AND INSPECTING SKEINS; AND, THEN PACKING THE THROWN SILK FOR SHIPMENT.

IN 1950 ONE OF THE THEN IMPORTANT U.S. SILK THROWING MILLS HIRED SOME COST ENGINEERS TO MAKE TIME AND MOTION STUDIES UPON WHICH TO BASE THE INTRODUCTION OF A WAGE INCENTIVE SYSTEM. THE ENGINEERS FOUND THAT IT WOULD BE VIRTUALLY IMPOSSIBLE TO DETERMINE THE VALUE ADDED IN EACH STAGE OF THE SILK THROWING PROCESS. THE PROJECT WAS CONSEQUENTLY SCRAPPED.

FOR THESE REASONS WE ARE UNABLE TO DO MORE THAN PROVIDE UPDATED DATA FOR THE TOTAL VALUE ADDED IN THE SILK THROWING MILL. RAW SILK IS BOUGHT AT \$9-\$10 PER POUND AND THE THROWN SILK YARN IS SOLD AT \$15.25-\$16.25 PER POUND FOR A RESULTANT VALUE ADDED OF APPROXIMATELY \$6.25 PER POUND OR MORE THAN 60 PERCENT OF THE VALUE OF THE RAW SILK.

(4) A COMBINATION OF CHANGED CIRCUMSTANCES BROUGHT ABOUT THE SHARP INCREASE. HISTORICALLY, U.S. MILLS HAVE BEEN ABLE TO IMPORT RAW SILK AT HIGHLY COMPETITIVE WORLD PRICES FROM THE FEW COUNTRIES WHICH HAVE SERICULTURE. JAPANESE MILLS HAVE NOT HAD THE SIMILAR ADVANTAGE OVER RECENT YEARS. AMERICAN MILLS THEREFORE HAVE HAD A LOWER RAW MATERIAL COST THAN THEIR JAPANESE COUNTERPARTS.

SECONDLY, THE U.S. DOMESTIC DEMAND FOR RAW AND THROWN SILK HAS BEEN DECREASING RAPIDLY OVER THE RECENT PAST. THIS HAS RESULTED IN CAPACITY IN U.S. THROWING MILLS THAT COULD BE DEVOTED TO PRODUCTION FOR THE EXPORT TRADE. AT THE SAME TIME, WAGE RATES IN THESE MILLS WERE FALLING RELATIVE TO THOSE EXISTING IN JAPANESE MILLS, THEREBY INCREASING THE COMPETITIVENESS OF U.S. MILLS.

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PAGE 06 STATE 239372

THIRDLY, THE PERIOD WAS MARKED BY EXTENSIVE ALTERATION OF EXCHANGE RATE RELATIONSHIPS IN FAVOR OF U.S. EXPORTS.

THE PROOF OF THE NEW-FOUND COMPETITIVENESS OF THE AMERICAN THROWSTERS IS AVAILABLE FROM THE JAPANESE IMPORT DATA FOR THE PERIOD PRIOR TO THE EMBARGO IN FEBRUARY 1976. THESE DATA SHOW THAT WHEN THE U.S. WAS ALLOWED TO COMPETE IN THAT TIME OF RELATIVE FREE TRADE U.S. THROWSTERS WERE ABLE TO SELL IN LARGE QUANTITIES IN COMPETITION WITH THE FRENCH AND ITALIANS WHO HAVE BEEN AMONG THE WORLD'S LEADING SUPPLIERS SINCE THE MIDDLE AGES.

(5) THE UNITED STATES BRIEF STATES "THAT JAPANESE FOREIGN EXCHANGE BANKS WERE INSTRUCTED NOT TO OPEN ANY NEW LETTERS OF CREDIT FOR THROWN SILK AFTER FEBRUARY 26, 1976."

THIS WAS BASED ON COMMON KNOWLEDGE IN THE TRADE. AS EVIDENCE OF THIS WE PROVIDE THE FOLLOWING TEXT OF A LETTER DATED MAY 14, 1976, WRITTEN BY A JAPANESE IMPORTER TO HIS UNITED STATES SUPPLIER:  
QUOTE

DEAR SIRs:

ACCORDING TO YOUR TELEX, YOUR LETTER, AND LONG DISTANCE CALL, YOU HAVE ASKED US TO OPEN L/C FOR CONTRACT NO. (BLANK) - FEB. 10TH, (BLANK NO.) BALES, THROWN SILK, SHIP-

MENT AUGUST THRU DECEMBER 1976 TOTAL AMOUNT (BLANK).

PLEASE BE ADVISED THAT WE NEED THE MERCHANDISE ON ABOVE MENTIONED CONTRACT. AFTER ALL WE HAVE BEEN IMPORTING THESE THROWN SILKS RIGHT ALONG THRU YOUR FIRM. TODAY IT IS LIMITED OFFICIAL USE  
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PAGE 07 STATE 239372

POSSIBLE TO OPEN L/C TO YOU. THE BANK CANNOT ACCEPT OUR L/C APPLICATION BY ORDER OF OUR GOVERNMENT.

M.I.T.I., THE NEW REGULATION FOR IMPORTING THROWN SILKS IS UNDER A NEW SYSTEM, SAYING ADVANCE ADMITTANCE SYSTEM. AT PRESENT OUR GOVERNMENT DOES NOT ACCEPT ANY NEW IMPORTS.

WE ARE VERY SORRY TO BE IN THIS SITUATION AND ARE ASKING YOU TO SUSPEND OUR CONTRACT UNTIL FURTHER NOTICE.

YOUR COOPERATION IS APPRECIATED. UNQUOTE

IN THE INTERESTS OF BUSINESS CONFIDENTIALITY WE HAVE DELETED THE NAMES OF THE PARTIES, THE CONTRACT NUMBER, THE NUMBER OF BALES, AND THE VALUE OF THE CONTRACT. IF THE PANEL WISHES VERIFICATION OF THE LETTER, THE U.S. MISSION WILL BE HAPPY TO SHOW A TRUE COPY TO THE PANEL.

3.B SILK THROWING MILLS PRODUCE A CUSTOM PRODUCT AS PRESCRIBED BY THEIR CUSTOMERS. HISTORICALLY BOTH UNITED STATES CUSTOMERS AND JAPANESE CUSTOMERS HAVE REQUESTED THROWN SILK IN THE 120-250 TWIST RANGE AND THIS IS WHAT THE MILLS PRODUCE. THERE IS NOT NOW AND NEVER HAS BEEN SIGNIFICANT COMMERCIAL DEMAND IN THE TRADE FOR 800 TWIST (OR OVER) SILK AND NONE IS ANTICIPATED IN THE FUTURE. IN ALL MAJOR SILK TRADE COUNTRIES THE TARIFF DEFINITION OF THROWN SILK DOES NOT HINGE ON THE DEGREE OF TWIST IN THE PRODUCT NOR IS IT NORMAL COMMERCIAL PRACTICE TO HAVE A TWIST IN EXCESS OF 250. WE CAN CONFIRM OUR EARLIER STATEMENT THAT U.S. MILLS ARE CAPABLE OF PRODUCING THROWN SILK WITH 800 TWISTS PER METER. HOWEVER, THE SHIFT TO THE HIGHER TWIST YARN WOULD REQUIRE A CHANGE IN HOW THE PRODUCT IS PREPARED FOR SHIPMENT TO THE

CUSTOMER. THE HIGHER TWIST YARN CANNOT BE SHIPPED IN  
SKEINS, THE WAY IN WHICH THROWN SILK HAS BEEN TRADITIONALLY  
SHIPPED, BUT MUST BE SHIPPED ON LARGE BOBBINS OR CONES. TO  
EFFECT SHIPMENTS OF THE 800 TWIST YARNS, THE MILLS WOULD BE  
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PAGE 08 STATE 239372

OBLIGATED TO INSTALL MACHINERY FOR THE WINDING ON BOBBINS  
OR CONES, SOMETHING NOT PREVIOUSLY REQUIRED OF THEM.

WE ARE NOT PREPARED TO ACCEDE TO THE SUGGESTION SINCE  
IT WOULD NOT CONFORM TO WEAVERS' NEEDS OR THE NEEDS OF  
OTHER ELEMENTS OF THE TRADE. CHRISTOPHER

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## Message Attributes

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**TAGS:** ETRD, GATT  
**To:** GENEVA INFO TOKYO  
**Type:** TE  
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